



# NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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## **CALIFORNIA TREASURER ANGELIDES CALLS ON SCHWARZENEGGER ADMINISTRATION TO REJECT MERGER OF WELLPOINT HEALTH NETWORKS, INC. AND ANTHEM, INC.**

*In Testimony Before Governor Schwarzenegger's Managed Health Care Agency,  
Angelides Calls Planned Payouts to WellPoint Executives 'Excessive' and 'Obscene';  
Says Merger's Price Tag Will Hurt 7 Million Californians Covered by Blue Cross  
At a Time When Health Care Costs Are Rising*

SACRAMENTO, CA – California State Treasurer Phil Angelides today called on Governor Schwarzenegger's Department of Managed Health Care (DMHC) to reject the planned merger of WellPoint Health Networks, Inc., parent of Blue Cross of California, and Anthem, Inc., saying that the hundreds of millions of dollars in compensation to be paid to WellPoint executives – should the deal go through – constitutes an “excessive” cost to California pension fund members, health consumers and shareholders. The Treasurer urged the Schwarzenegger Administration to disapprove the merger unless WellPoint's top executives relinquish the lucrative pay package they stand to receive if the merger goes through.

“I know excessive pay when I see it, and the payouts proposed for WellPoint executives in this merger are not only excessive, they are obscene, too,” Angelides testified today at a hearing on the merger before the California Department of Managed Health Care.

Angelides sits on the boards of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – the nation's first and third-largest public pension funds. Both CalPERS and CalSTRS are significant shareholders in WellPoint and Anthem, and the two pension funds voted their shares in opposition to the pending merger at shareholder meetings last month.

At today's hearing, Angelides urged the Department to use its authority under the Knox-Keene Act to reject the deal. The Act forbids health plans from expending “excessive amounts” on administrative costs, including salaries and bonuses to plan officers, and authorizes the DMHC to investigate and call upon plans to institute procedures to assure that administrative costs are “not excessive.”

Angelides went on to say, “these excessive bonuses are plainly not good for California,” as the “astonishing sums can come from only two places: from the merged firm’s shareholders, including the members of CalPERS and CalSTRS, or from the health consumers, including 7 million Californians, who pay its insurance premiums – all at a time when premiums are rising annually at double-digit rates and when more and more Californians are paying more and more out of pocket for health care as they struggle to make ends meet.”

WellPoint’s top executives stand to receive bonus and severance payments of at least \$147 million, and potentially as much as \$356.4 million, as a result of the merger of the firms. In addition, WellPoint’s executives could receive stock options valued at \$251 million, for a combined package of more than a half billion dollars. Angelides said the Schwarzenegger Administration should not approve the deal unless WellPoint executives relinquish these “unearned paydays.”

*The full text of the Treasurer’s testimony today before the Department of Managed Health Care can be found on the Treasurer’s website: [www.treasurer.ca.gov](http://www.treasurer.ca.gov).*

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**Testimony of Phil Angelides, California State Treasurer  
Regarding the Proposed Merger of WellPoint Health Networks Inc., Parent of Blue Cross of California,  
and Anthem Inc.  
Before the California Department of Managed Health Care  
July 9, 2004**

Chief Deputy Director Chartrand and fellow Californians,

As Treasurer of the State of California, I sit on boards of the California Public Employees' Retirement System and the California State Teachers' Retirement System. Together, these systems guard the retirement savings of 2.1 million Californians and their families. In addition, CalPERS is the largest purchaser of health care in California. As a trustee of those Californians' life savings and as a health insurance purchaser for those families, I had no doubt what my duty required when asked to consider the merger of WellPoint and Anthem. That is why I urged California's two retirement funds to vote against the proposed merger. It was clear that the pay packages WellPoint executives have awarded themselves hurt our members, both as shareholders and as health care consumers.

Now it is time for your Department to do its duty, too, to protect California's health care consumers. California law says that no health plan shall spend "an excessive amount" on administration, including pay for its top executives. The law thus calls on your Department, as it considers the proposed merger, to set a standard of behavior and to answer a basic question: What is excessive pay for health plan executives?

My answer today to that question is the same one the late U.S. Supreme Court Justice Potter Stewart offered forty years ago, when he wrestled in a famous case with the legal definition of obscenity:

"I know it when I see it," he wrote.

Mr. Chartrand, I know excessive executive pay when I see it. And the payouts proposed for WellPoint executives in this merger are not only excessive. They are obscene, too.

The facts here are not in dispute. Under WellPoint's Officer Change in Control Plan, 293 WellPoint executives are in line to receive huge bonuses.

They will receive these payouts whether they stay with the merged company or whether they leave.

They will get the extra pay whether the merged company prospers or flounders.

They will reap millions whether the merger benefits shareholders and health plan consumers, or whether it hurts them.

WellPoint executives who remain with the merged company will receive a bonus equal to one year's salary and bonus. Half of the bonus will be payable on the first anniversary of completion of the merger, with the other

half payable on the second anniversary. They will get the bonus just for showing up and doing the job they are already being paid to do—millions in extra pay for being kept on at a job at a time when many Californians worry whether they will even have a job tomorrow.

According to WellPoint, if all the covered executives remain with the merged company, they will receive merger completion bonuses totaling \$147 million.

One hundred forty-seven million dollars. That would buy health insurance for 17,000 uninsured California families.

If that's not excessive, what is?

Executives who leave will collect even more. They are entitled to cash severance if they are “involuntarily” and “constructively” terminated within three years of the merger. Executives who leave will receive cash payments of two to three times their annual salary and bonus.

By the mere fact of this merger, which they helped to engineer, many executives will be able to claim these huge payouts. They will be eligible to leave and take this severance payout if the merger reduces their “title, status, duties or compensation.” The plan says they will be entitled to the severance for no reason other than that their office moves by more than 35 miles, as will happen in the merger—a perk not available, I am sure, to all those hard-working Californians, the clerks and technicians, who may in fact lose their jobs in this deal.

According to WellPoint, its executives are eligible for up to \$356 million in severance payments. That would buy health insurance for 42,000 uninsured California families.

Three hundred fifty-six million dollars for not working. If that is not excessive, what is?

On top of all this, the unvested stock options held by departing executives will immediately vest. The net value of those unvested options at \$112 a share would be up to \$251 million. In all, the executives could potentially walk away with more than a half billion dollars.

If that is not excessive, what is?

The largest unearned payday belongs to CEO Leonard D. Schaeffer. According to WellPoint, Mr. Schaeffer, who will give up his CEO post in the merger, will receive \$36 million in severance and tens of millions more in enhanced retirement benefits and vesting of options as a result of the deal.

But for Mr. Schaeffer, that jackpot, apparently, is not enough. The company will also pay his liability, if any, for the federal excise tax on excessive “golden parachute” compensation.

Imagine that: A \$36 million bonus for leaving and he expects the company to pay his taxes, too.

If that is not excessive, what is?

No one can claim that Mr. Schaeffer has not already been well compensated for his work. As of June 1<sup>st</sup> he owned more than 1 million shares of WellPoint worth about \$110 million and had been accorded options on 3.1 million shares more.

Last year, he received a salary of \$1.3 million and a bonus of \$6 million.

On top of that, the company forgave a loan to Mr. Schaeffer of \$2.2 million. It paid him a special bonus of \$2 million. It awarded him stock options with a present value of \$13.4 million.

He got life insurance totaling three times his base salary. He got the lease of an automobile. He got three memberships in luncheon, professional, or athletic clubs of his choice. He got \$26,250 for financial and tax counseling services. He even got \$17,022 to pay his taxes on financial planning services provided to him to figure out how to handle all his money.

If that is not excessive, what is?

Others appearing here today will tell you that all the bonuses and severance pay in this merger are not excessive because other executives in other companies have given themselves similar golden parachutes.

That is the everybody-does-it defense. And it is wrong in two ways.

First, not everybody does it. Anthem, for example, has no similar plan for its executives.

But even if everybody did it, that would not make it right. The everybody-does-it defense is an effort, as the late Sen. Daniel Patrick Moynihan called it, "to define deviancy down." It tries to make the indefensible seem normal and to get us "used to a lot of behavior that is not good for us."

And these excessive bonuses are plainly not good for California. These astonishing sums can come from only two places: from the merged firm's shareholders, including the members of CalPERS and CalSTRS, or from the health consumers, including 7 million Californians, who pay its insurance premiums—all at a time when premiums are rising annually at double-digit rates and when more and more Californians, including the members of CalPERS, are paying more and more out of pocket for health care as they struggle to make ends meet.

We are being asked to believe that somehow, through the miracle of accounting, California patients will not be saddled with these unearned paydays, that Anthem will bear the burden. That is simply a way of saying that California should ignore the law's prohibition on excessive executive pay because the dollars, ostensibly, will be snatched from the pockets of health consumers in Ohio, Maine, and Wisconsin, and of shareholders everywhere.

The Schwarzenegger administration should not be complicit in this invitation to define deviancy down. I know excessive executive pay when I see it. The people of California know it when they see it.

So should you. The Schwarzenegger administration must not approve the WellPoint-Anthem merger unless the company's executives give up these excessive, obscene, and unearned paydays.